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SUBJECT: SAG PREPARES ELECTRICITY SUMMIT AS WAY OUT OF
POWER WOES

REF: A. PRETORIA 906

- [1](#)B. PRETORIA 758
- [1](#)C. PRETORIA 565
- [1](#)D. PRETORIA 315 AND PREVIOUS

[1](#)1. (SBU) Summary. There are big hopes for the South African Government/ANC-convened electricity summit of stake-holders on May 16. Hoped-for outcomes include high-level leadership and consensus on the way forward out of the power crisis, including consensus on power tariffs and the use of load-shedding. A business-oriented think tank hosted a round-table of key players who placed great stock in the electricity summit, having identified leadership as a key gap that contributed to the emergency. However, details on the summit are still sketchy. End Summary.

[1](#)2. (SBU) The center-right, business-oriented Center for Development and Enterprise convened stake-holders to a round-table on May 5 on the electricity crisis (How did we get here and how do we put things right?). Attendance included senior actors of key organizations such as the state power company Eskom, the state power regulator (NERSA), the Presidency, the Chamber of Mines, labor, and business. Although there were a number of government representatives, the Department of Public Enterprises, which represents the government as sole share-holder in Eskom, was a no-show. (Public Enterprises Minister Alec Erwin was vigorously bashed in absentia, even more than Eskom, whose CEO was gamely in attendance.) The chair of the National Electricity Response Team, Department of Minerals and Energy Deputy Director General Nelisiwe Magubane, attended the morning session, but was strangely silent. Ironically, the power went out for a few minutes during the comments of the Economic Advisor at the Presidency, who voiced views of the government.

How Did We Get Here? - Need for Leadership

[1](#)3. (SBU) University of Cape Town Professor Anton Eberhard provided context for the power crisis by summarizing the

ultimate causes as:

- Insufficient capacity stemming from the moratorium on Eskom new build from before 2001 to 2004, while the SAG unsuccessfully sought to establish a framework to secure independent power producers (IPPs).
- Inability of Eskom to keep its generators working due to equipment and maintenance failures, exacerbated by skills shortages and management negligence in maintaining coal stockpiles at power stations.
- Unreliable networks, in particular looming problems with electricity distribution.

Eberhard summarized the bogus causes trotted out for the power crisis as:

- Demand was higher than expected. (Rather, forecasts quite accurately identified shortfalls beginning in 2007.)
- Planning was inadequate. (There were lots of good plans, including the SAG White Paper of 1998.)
- Regulated prices prevented Eskom from investing in new plant. (Eskom had good cash flow; the problem was it did not have a green light from the government.)
- Insufficient coal, poor roads, growth in coal exports caused the coal problem. (While true, these factors were peripheral. The issue was failures in stock-piling and contracting.)
- The private sector is not interested in investing. (The government has failed in implementing its intent to establish a competitive market. There are 40 IPPs elsewhere in Africa, in tougher investment environments.)

PRETORIA 00000982 002 OF 003

Eberhard identified key failures in contracting and leadership as under-lying the power crisis. Weakness in contracting, as well as non-performance by some small Black Economic Empowerment (BEE) contractors, contributed mightily to failures in maintaining coal stock-piles and in securing IPPs. In addition, he noted that South Africa is one of the most energy intensive countries in the world.

14. (SBU) Other participants elaborated on other contributing factors to the power crisis, emphasizing a failure of leadership. Business Leadership SA official Michael Spicer feared that there were too many processes and committees, as South Africans habitually fall back on process. He saw a risk that process could overwhelm substance. Chamber of Mines Economist Roger Baxter, who participates in most of the plethora of relevant committees, echoed the need for high-level leadership. He said many of the decisions made in the White Paper of 1998 were not implemented, including establishment of rationalized regional electricity distribution (RED) entities. Many participants stressed the centrality of pricing to getting things right. National Union of Mineworkers official (and former Eskom Board member) Frans Baleni and others asked where was the Eskom board? Shouldn't they be out there leading and communicating with stake-holders and customers? There was consensus questioning of the role and mandate of the Eskom board and the Department of Public Enterprises as share-holder and owner for the government. There was also consensus criticism of the aluminum smelters which import bauxite, are electricity intensive, but are not employment intensive. The failure to negotiate a contract with U.S. firm AES for a peaking gas-fired IPP was noted as emblematic of a failure with respect to both contracting and engaging the private sector.

15. (SBU) Eskom CEO Jacob Maroga bravely attended the whole day's conference and defended Eskom's approaches. He admitted that coal was a big problem, but stated that the stock-pile issue could not be solely attributed to Black Economic Empowerment (BEE) contracting. Maroga said some coal-fired plants possessed inadequate dedicated coal, so there was a commensurate need for coal transport and adequate

road maintenance. He admitted the criticality of regaining appropriate reserve margin, caused by the delay in the new build program and deficiencies in plant performance. Maroga noted that the utilization of current plant installed capacity or load factor had reached 70 percent, compared to optimum and historical 50 percent. He noted that the more costly to operate peaking plants were running at 50 percent, compared to planned 6 percent. This contributed to the fuel funding crisis, which was driving the request for a tariff increase. Maroga admitted that there had been delays in procurement which contributed to the delay in new base load. He acknowledged the help of U.S. firm Black & Veatch in construction management of the new big coal-fired plants under construction. Maroga also noted that current plant availability was only 86 percent, compared to target 90 percent. (Note: Post has heard availability estimates at times as low as 75 percent. End Note.) Finally, Maroga also noted that Eskom was suffering worsening coal quality due to mining economics and geology.

How Do We Put Things Right? - Electricity Summit

¶16. (SBU) Professor Eberhard stated that the way forward should include restoring coal stock-piles, improving generation reliability, securing new build capacity, pursuing cogeneration, securing IPPs, and improving energy efficiency and demand-side-management (DSM). Eberhard emphasized that the cost of the power crisis is higher than acknowledged, noting that the cost of unserved energy is much greater than the contracting cost of securing capacity. He asked, "will

PRETORIA 00000982 003 OF 003

the lights stay on?" Eberhard said it depended on Eskom restoring an acceptable reserve margin, keeping its "kit" working, and maintaining reliable networks. He said Eskom was in fact moving forward on these targets.

¶17. (SBU) Presidential Advisor Neva Makgetla expressed the government point of view. Makgetla described the government's extensive modeling of electricity supply and demand, emphasizing the need to reduce energy intensity, improve energy efficiency, and bring new capacity on board. She criticized load-shedding as a crude and counter-productive tool. Makgetla supported moving to economic pricing with incentives for metering and reducing demand, but she stressed the need to cushion the poor from extreme jumps in prices.

¶18. (SBU) A number of participants lauded the decision of the government and ANC National Economic Committee to convene stake-holders to a high-level electricity crisis summit on May 16. This is seen as the opportunity to get engagement and commitment from the highest levels of government on the way forward, including tariff structure and use of load-shedding. Makgetla stated that the government was holding a number of meetings to prepare for the summit. Business Unity SA (BUSA) official Bobby Godsell hoped that the government could clarify Eskom's mandate between security of supply, competitive pricing, access to the poor, and other issues.

¶19. (SBU) The UK Ambassador stressed that any solution would have to be South Africa-specific and inherently political. He cautioned that too much emphasis on privatization could build political opposition. He said that the UK experience in liberalization and unbundling was instructive, but could not be applied directly in South Africa. He applauded the electricity summit as an opportunity to have a national debate and reach a national consensus on next steps.

¶10. (U) The local Engineering News reported on May 9 that the agenda for the national electricity/energy summit on May 16 is likely to be finalized at a special Presidential

joint-working group on May 12. According to the article, the summit - which was initially called for by the ruling ANC - will be convened by the National Economic Development and Labor Council (NEDLAC). NEDLAC Executive Director Herbert Mkhize noted that Eskom's application for a 60 percent increase would occupy center stage. However, he admitted that the regulator NERSA will not be invited as it would create a conflict of interest for the body, which has to deliberate on the pricing issue a few days later. In addition, the role of the state utility Eskom still had to be finalized. Mkhize suggested the government - as Eskom's sole shareholder - will likely speak on behalf of the power company, but emphasized that Eskom executives would be in attendance.

11. (SBU) COMMENT: The decision to convene a high-level electricity summit on May 16 is welcome and over-due, but details on program and participants are still sketchy. Stake-holders are hopeful for clear decisions on the way forward. The government has unfortunately lacked the capacity to get it right so far with respect to IPPs and realistic tariffs, thereby letting the country drift to its current power conundrum. Whether it can make an about-face, grapple with the political exigencies, and provide clear leadership going forward will have huge consequences for the investment environment and economic growth.
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